

Reporting Use Tax for Lump Sum Contracts Effective Prior to July 15, 2002

Sales &
Use tax
notice
#03-02

This important notice provides guidance for reporting and remitting use tax at the 6% state rate and the applicable local option sales tax rate in effect July 1, 2002, for construction contractors or subcontractors making improvements to real property under qualifying lump sum or unit price construction contracts. Refer to [Important Notice dated July 10, 2002, entitled "Changes in State Sales and Use Tax Rate."](#)

Chapter 856 of Public Acts of 2002 provides that all contractors and subcontractors must pay sales tax to their vendors at the increased state rate of 7% and the state rate of 2.75% on the sales price from \$1,600.01 to \$3,200 of any single article of tangible personal property. The contractors and subcontractors may then file claims for refund with the Department of Revenue for tax paid to vendors on tangible personal property or services used in the performance of qualifying lump sum or unit price construction contracts that are subject to tax at the 6% state rate and the applicable local option tax rate.

Effective immediately, contractors and subcontractors that have made purchases without the payment of tax on tangible personal property that will be used in the performance of qualifying lump sum or unit price construction contracts should report and remit the use tax at the 6% state rate and the applicable local option tax rate. Dealers are required to keep

records to demonstrate the tangible personal property was subject to the 6% state rate. Such records include; a copy of the contract with the dates that the contract was entered into, records indicating the materials used in the performance of the qualifying lump sum contract, and records demonstrating that the state rate of 6% and the applicable local tax rate was reported and paid to the department.

To report the use tax, the taxpayer should include all tangible personal property purchased without the payment of sales tax on Line 3 on the front of the sales and use tax return. The purchases subject to the 6% state rate should be included on the back of the return in the amount on Schedule A Line A for Food. Tax will be calculated at the 6% state rate on Line 9 on the front of the return for the amount included in Schedule A Line A. The amount entered on Schedule A Line A should be included in the amount entered on Schedule B Line 2 to properly calculate the local option tax.

This notice constitutes a change of procedure as the department has previously required contractors and subcontractors to remit use tax on all taxable purchases of tangible personal property made without the payment of tax at the increased state rate of 7% and the state rate of 2.75% on the sales price from \$1,600.01 to \$3,200 of any single article of tangible personal property. For

the tangible personal property subject to use tax at the 6% state rate, the contractors and subcontractors were required to file a claim for refund for the one percent 1% increase in the state rate and the new state rate of 2.75% on the sales price from \$1,600.01 to \$3,200 of

any single article of tangible personal property.

Have questions or comments? Please let us know. [Contact us.](#)

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